

**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
JANUARY 1, 2005 TO MARCH 31, 2005**



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Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
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April 8, 2005

The Honorable Lacey E. Putney, Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period January 1, 2005, through March 31, 2005.

This report has several summaries addressing statewide issues. These issues include Deferred Maintenance, Statewide Reporting and Budget and Appropriation Processing Control. These reports represent this Office attempt to have Central Agencies and the Governor address processes that affect the entire state government processing of financial information and issues.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:whb

EXECUTIVE SUMMARY

REPORT ON BUDGET AND APPROPRIATION PROCESSING CONTROL SYSTEM

We have completed a Review of the Budget and Appropriation Processing Control System administered by the Department of Planning and Budget for the fiscal year ended June 30, 2004 as part of our audit of the State Comptroller's Comprehensive Annual Financial Report.

Overall, we determined that policies and procedures for the budget and appropriation processing were adequate. Specifically, we determined that:

1. The Commonwealth Accounting and Reporting System (CARS) properly includes the budget approved by the General Assembly.
2. Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations.
3. Budget adjustments recorded by Planning and Budget are properly approved.
4. Access to the Form 27 Automated Transaction System (FATS) and Web-based Budget Entry and Report System is reasonable.
5. Critical system programs and data are protected with adequate operating and application system controls.
6. Budget information recorded in FATS and CARS is reconciled at a statewide level.

Planning and Budget operates a budget system to ensure that agencies conduct their activities within the fund limitations provided in the Appropriation Act and in accordance with gubernatorial and legislative intent. The Governor and Planning and Budget have certain statutory authority to increase, decrease, or transfer funds and personnel positions during the fiscal year within constraints set in the Appropriation Act. Section 4-1.00 of the Appropriation Act is the primary source of this authority, but there are also other requirements throughout the Appropriation Act as well as other general statutory requirements. During fiscal year 2004, Planning and Budget processed over 20,000 operating budget adjustments totaling over \$6 billion. We have included a table on page 7 of the report detailing the total number and amount of operating adjustments by FATS adjustment type.

REVIEW OF DEFERRED MAINTENANCE IN THE COMMONWEALTH INTERIM REPORT

The Commonwealth of Virginia owns over \$8.6 billion in buildings and surrounding infrastructure valued at historical cost. When considering the current replacement value of those same buildings, they are worth over \$12.6 billion. The Commonwealth currently owns 187 buildings constructed before 1900. During the past 50 years, the Commonwealth has tripled the number of buildings it owns over the number it owned in the first half of the century.

The Commonwealth's buildings and their systems are in a constant state of deterioration. Naturally, as the buildings age, components start to wear. This deterioration is cyclical and compounds the deficiencies. However, not only are the Commonwealth's buildings deteriorating, they often do not fulfill the needs of the agencies' and institutions' current missions. Technological advancements, programmatic and social changes, and economic fluctuations over the years have changed the way the Commonwealth does business and the resources needed to do business.

We determined there is no accountability for the condition of the Commonwealth's buildings and how agencies maintain them. In addition agencies and institutions do not budget or account for operating maintenance. The budgeting that occurs does not consider actual need, but uses historical information. Since agencies and institutions do not budget for actual need, they are using their maintenance reserve allocations to perform activities that they should fund through the operating budget. Therefore, the Maintenance Reserve Program is not a good indicator of the current backlog of deferred maintenance for the Commonwealth.

There is no complete inventory of all Commonwealth-owned buildings and their components and their current physical condition. The Commonwealth does not provide agencies and institutions with any policies or guidance on how to maintain facilities. The Commonwealth's current capital outlay and maintenance process is not functioning as intended and will continue to accelerate the growing deferred maintenance backlog if not reformed.

We recommend that the Governor and General Assembly consider the following:

- Reforming the operating, maintenance, and capital outlay budget process especially for facility maintenance, renewal, and renovation;
- Establishing a standard condition level for state-owned facilities and requiring agencies and institutions to develop a program to achieve this level;
- Eliminating the Maintenance Reserve Program and establishing a reserve fund for each agency that owns buildings for continuous maintenance;
- Requiring agency and institution management to provide information that they have properly performed operating and continuous maintenance; and
- Establishing a Capital Preservation and Renewal Reserve Fund to accumulate long-term funding for capital renewal activities by relating the funding to financing instruments used to fund capital improvements, renovations, or new building construction. Requiring the agencies and institutions to demonstrate that they have only used the funds for the purposes intended and not used the funding on other facilities, programs, or activities.

We are also recommending a statewide Facility Asset Management System to allow for the accumulation, analysis, and prioritization of the data needed to assess maintenance costs and management performance of maintenance. In addition, the system will provide the information necessary to plan for each phase in the life cycle of a building.

REVIEW OF PERFORMANCE MEASURES

Our review found problems in the accuracy and understandability of performance measure information reported on the Virginia Results Internet website (Virginia Results). Virginia Results, maintained by the Department of Planning and Budget, contains strategic planning and performance measure information for executive branch agencies. Planning and Budget has made significant improvements in the completeness of the performance information; however, the results of this review show the accuracy and understandability of the performance measures requires additional improvements.

Our report includes the following specific recommendations aimed at improving the accuracy and understandability of the performance measure information on Virginia Results. Many of these recommendations will require the agencies and Planning and Budget to work together to resolve issues.

- Agencies should strengthen their procedures over the compilation and reporting of performance measure information on Virginia Results. While the accuracy of the information is ultimately the responsibility of the agency, Planning and Budget should set some minimum standards for agency documentation to support amounts reported on Virginia Results.
- Agencies and Planning and Budget need to review the current performance measures for understandability. In addition, Planning and Budget staff need to take a more active role in the review of new measures to ensure they are clear and understandable.
- Agencies and Planning and Budget need to work together to develop and report more results-oriented, outcome measures on Virginia Results.
- Planning and Budget should review and clarify recent guidance on performance measures, specifically as it relates to objectives and performance measures.
- Planning and Budget needs to strengthen their procedures for granting and controlling access to the Virginia Results database.

We continue to observe that while most of the measures published do relate to agency activities, many of them are of limited use and relevance for evaluating government programs and activities. We re-emphasize that input from the legislature, citizens, and others in government is required to determine which measures are appropriate for an agency or program. We recognize that Planning and Budget, in conjunction with the Council on Virginia's Future, is addressing long term planning and performance management issues in the Commonwealth. We hope that both Planning and Budget and the Council will consider our recommendations as they move forward with these efforts.

REVIEW OF STATEWIDE REPORTING PROCESS

The Department of Accounts prepares several statewide reports including the Commonwealth's Comprehensive Annual Financial Report (CAFR) and the Statewide Schedule of Expenditures of Federal Awards (SEFA). The Department of Treasury provides a significant amount of data to Accounts for the CAFR preparation process. This report contains an overview of the processes used to prepare these reports and suggestions to improve the current process.

We identified several areas as indicated below where Accounts and Treasury can achieve efficiencies in the CAFR and SEFA preparation processes and recommend they consider these as part of their on-going review of the process.

- *Automate Processes* - There are several areas where Accounts and Treasury either have the automation in place and have not taken full advantage of its capabilities or where the agencies can implement automation given their current resources.

- *Methods for Collecting Financial Information* - Accounts should consider alternative methods for gathering financial information to determine whether there are more efficient ways to accumulate and report the information.
- *Agency Guidance and Relationships* - Accounts and Treasury must enhance their relationships with the agencies that provide information for use in preparing statewide reports to ensure they have a full understanding of each agency's role in the report preparation process and continue to provide guidance to the agencies on how their information is used in statewide reporting.
- *Improve Statewide Federal Schedule Preparation* - Accounts should make better use of automation and enhance its review process to ensure the SEFA is complete and accurate.
- *Enhance Knowledge of Standards and Requirements* - Accounts' employees should receive additional training on federal guidelines and programs in order to provide sufficient guidance to state agencies and to perform an effective desk review of agency submissions.

REVIEW OF INFORMATION SYSTEMS DEVELOPMENT AND IMPLEMENTATION METHODOLOGY AT THE VIRGINIA DEPARTMENT OF STATE POLICE

The Virginia Department of State Police (the Department) has adequate system development guidelines; however, they do not consistently follow them. Staffing shortages, older technologies, reluctance to use commercially available administrative systems, and lack of a clear vision as to where Data Processing should address the business needs of the Department are hampering operations.

Having good policies and procedures is the start of any good process or project undertaking. Not using, following, or enforcing those policies and procedures leads to fragmented development efforts, lack of user acceptance, and systems that become costly to operate.

Although the Department has unique operating needs, many of the core functions are similar to the operations of any other business, agency, or institution. The Commonwealth has available a wealth of systems and knowledge that the Department could use to address these needs without continuing to rely on a system development approach that does not take advantage of these resources.

Management needs to complete a comprehensive strategic plan for operations that considers where the operations should be, rather than what is achievable with only using the existing technology. The Department provides critical services to the Commonwealth and antiquated and inefficient support systems should not hamper their operations.

We recommend that the Department take advantage of the resources within the Virginia Information Technologies Agency (VITA) to re-examine their agency-wide strategic plan. This collaboration should allow the agency to explain its direction, needs, and goals and then allow VITA to work with the Department on a Data Processing's strategic plan that examines the use of current and future technologies. We believe in the area of administrative systems alone, there is the opportunity to meet most needs from existing resources within the Commonwealth with potential lower initial and long-term operating costs.

Overall Conclusion

We recommend that the Department take advantage of the resources within the Virginia Information Technologies Agency (VITA) to re-examine their agency-wide strategic plan. This collaboration should allow the agency to explain its direction, needs, and goals and then allow VITA to work with the Department on a data processing strategic plan that examines the use of current and future technologies. We believe in the area of administrative systems alone, there is the opportunity to meet most needs from existing resources within the Commonwealth with potential lower initial and long-term operating costs.

Additionally, the Department should use VITA's knowledge base to review and suggest staffing levels and assist in developing a plan to recruit, train, and retain personnel. While outside of VITA's normal duties, the critical nature of this operation should warrant this assistance.

Within Data Processing, management needs to make sure that all major projects and systems follow and use their internal guidelines. Management may need to consider some project management training for both the data processing staff and key users.

DEPARTMENT OF SOCIAL SERVICES

Our audit of the Department of Social Services for the year ended June 30, 2004, found the following material weakness in internal controls.

Properly Manage and Maintain Access to Information Systems

The Department provides central statewide oversight for policies and procedures to the 120 locally-operated social service agencies. In support of the locally-operated social service agencies, the Department has a number of central systems for determining and providing benefits. These central systems operate in diverse environments and include everything from mainframe applications to web-enabled systems.

Both the Department's oversight of the local social service agencies and the fragmented approach to system development has created some significant security issues over access to the systems and their data. Currently, the Department controls access to its systems at two levels. The Department's Information Security Unit creates, changes, and deletes access for some of the Department's systems, and other individual divisions have their own security officers. Management of each local social service agency determines what systems and level of access individual employees should have to the Department's systems. This level of access determines what functions an individual can perform when they get into the system. Controlling access is the equivalent of determining who has access to the cash drawer or the safe.

We recognize that the cost of addressing these issues could be cost prohibitive and that an ideal solution should come from the Department's overall strategy to replace its systems. However, there are clearly some actions that the Department could undertake in the interim to strengthen controls and provide the groundwork for the long term solution.

We believe that the Department could begin developing a personal computer based database of employees and their access. The essential information for this database could come from the data provided us in conducting our review. The Security Unit could use the access form as a data entry tool to update the database. Over time, the Security Unit could also use the database to review and verify access.

Other issues

The audit also disclosed the following:

- The proper reporting of amounts in the Commonwealth Accounting and Reporting System and the Department's accounting records,
- In addition to the material weakness noted above, other internal controls matters,
- Instances of noncompliance that are required reporting under Government Auditing Standards, and
- Adequate corrective action of prior year audit findings.

VIRGINIA INFORMATION TECHNOLOGIES AGENCY

Our audit of the Virginia Information Technologies Agency as of December 15, 2004, found:

- The CIO and the Board should update the Commonwealth's IT strategic plan and must consider the Commonwealth's business strategies coming from other organizations, such as the Council on Virginia's Future. Additionally, although the Board has defined parts of the Commonwealth's enterprise architecture, it is incomplete and partially outdated. In March 2004, the Board approved the Commonwealth's Policy regarding strategic planning, but has not started implementing the policy.

For VITA to achieve success, it is important that the Board and CIO establish a long-term Commonwealth IT strategic vision. This vision becomes the baseline against which organizational decisions at the Commonwealth, VITA, individual state agency levels, will measure future performance.

- The Project Management Division is fulfilling their statutory responsibilities, except in the areas of oversight and monitoring of project development;
- The Direct Bill system has adequate internal controls and provides reliable information. The Physical IT Asset system does not contain all VITA-owned assets due to system upload problems and because VITA has not issued detailed policies and procedures;
- Security Services has not established an understanding with transitioned agencies regarding their roles and responsibilities related to security and compliance with VITA standards. Recently Security Services began meeting with agency information security officers to clarify roles and also began revising outdated security policies and procedures;
- Security Services complies with their statutory responsibility to perform database security audits but relies on the work of others. They have not established a process to identify databases that are at greatest risk and have not developed an audit schedule based on their knowledge of those risks; and

- Management has started developing a methodology for identifying, calculating, and reporting savings; however, the current reporting mechanism includes savings amounts that will never transfer to the Technology Infrastructure Fund.
- VITA has taken adequate corrective action with respect to the prior year audit findings as indicated in Appendix A to the report.

SUMMARY OF REPORTS ISSUED

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The following reports on audit were released by this Office during the period January 1, 2005, through March 31, 2005. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Commonwealth of Virginia Single Audit Report for the year ended June 30, 2004*

Independent Agencies

Virginia Retirement System for the year ended June 30, 2004*

Executive Departments

Administration

Compensation Board for the period January 1, 2002 through June 30, 2004
Local Government Investment Pool Financial Statements for the year June 30, 2004
Virginia War Memorial Foundation for the year ended June 30, 2003

Commerce and Trade

Department of Housing and Community Development for the three-year period ending June 30, 2004
Virginia Board of Accountancy for the year ended June 30, 2004
Virginia College Building Authority Financial Statements for the year ended June 30, 2004
Virginia Public Building Authority Financial Statements for the year ended June 30, 2004
Virginia Public School Authority Financial Statements for the year ended June 30, 2004
Virginia Tourism Authority for the year ended June 30, 2004

Education

State Council of Higher Education for Virginia for the year ended June 30, 2004

Colleges and Universities

Christopher Newport University for the year ended June 30, 2004*
Danville Community College, Report on review for the year ended June 30, 2004
Old Dominion University for the year ended June 30, 2004
Old Dominion University Intercollegiate Athletic Programs for the year ended June 30, 2004
Southwest Virginia Community College, Report on review for the year ended June 30, 2004
Southwest Virginia Higher Education Center for the year ended June 30, 2004

Colleges and Universities (continued)

Thomas Nelson Community College, Report on review for the year ended June 30, 2004
University of Virginia's College at Wise as of June 30, 2004
University of Virginia for the fiscal year ended June 30, 2004
University of Virginia Medical Center for the fiscal year ended June 30, 2004
University of Virginia Intercollegiate Athletic Programs for the fiscal year ended June 30, 2004
Virginia Commonwealth University for the year ended June 30, 2004*
Virginia Commonwealth University Intercollegiate Athletic Programs for the year ended June 30, 2004
Virginia Polytechnic Institute and State University for the year ended June 30, 2004
Wytheville Community College, Report on review for the year ended June 30, 2004

Finance

Report on Budget and Appropriation Processing Control System for the fiscal year ended June 30, 2004
Department of Taxation

Health and Human Resources

Deaf and Blind for the year ended June 30, 2004
Department of Education including Direct Aid to Public Education and The Virginia Schools for the
Department of Human Resource Management for the year ended June 30, 2004*
Department of Social Services for the year ended June 30, 2004*
Virginia Department of Health for the year ended June 30, 2004*

Technology

Virginia Information Technologies Agency as of December 15, 2004*

Transportation

Department of Transportation for the year ended June 30, 2004*

Special Reports

Review of Deferred Maintenance in the Commonwealth Interim Report, dated December 2004*
Review of Information Systems Development and Implementation Methodology at the Virginia
Department of State Police December 2004*
Review of Performance Measures for the year ended June 30, 2004*
Summary Report of Local Government Audit Findings: Enhanced 911 Special Tax Funds
Review of Statewide Reporting Process, March 2005*

Clerks of the Circuit Courts

Cities:

City of Chesapeake Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004
City of Fredericksburg Clerk of the Circuit Court for the period October 1, 2003 through
December 31, 2004
City of Hampton Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004
City of Norfolk Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004
City of Radford Clerk of the Circuit Court for the period July 1, 2003 through December 31, 2004
City of Salem Clerk of the Circuit Court for the period October 1, 2003 through December 31, 2004*
City of Suffolk Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004
City of Virginia Beach Clerk of the Circuit Court for the period January 1, 2004 through
December 31, 2004
City of Waynesboro Clerk of the Circuit Court for the period April 1, 2003 through December 31, 2004
City of Williamsburg-James City County Clerk of the Circuit Court for the period October 1, 2003
through September 30, 2004

Counties:

County of Accomack Clerk of the Circuit Court for the period July 1, 2003 through September 30, 2004*
County of Amelia Clerk of the Circuit Court for the period July 1, 2003 through September 30, 2004
County of Augusta Clerk of the Circuit Court for the period January 1, 2003 through December 31, 2004
County of Campbell Clerk of the Circuit Court for the period April 1, 2003 through December 31, 2004
County of Chesterfield Clerk of the Circuit Court for the period January 1, 2003 through
September 30, 2004
County of Craig Clerk of the Circuit Court for the period October 1, 2003 through September 30, 2004
County of Floyd Clerk of the Circuit Court for the period July 1, 2003 through December 31, 2004
County of Gloucester Clerk of the Circuit Court for the period January 1, 2004 through
December 31, 2004
County of Henrico Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004
County of Isle of Wight Clerk of Circuit Court for the period January 1, 2004 through
December 31, 2004
County of King & Queen Clerk of the Circuit Court for the period October 1, 2003 through
September 30, 2004
County of King George Clerk of the Circuit Court for the period January 1, 2004 through
December 31, 2004
County of King William Clerk of the Circuit Court for the period October 1, 2003 through
December 31, 2004
County of Lancaster Clerk of the Circuit Court for the period January 1, 2004 through
December 31, 2004
County of Lunenburg Clerk of the Circuit Court for the period April 1, 2003 through September 30, 2004
County of Louisa Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004
County of Nelson Clerk of the Circuit Court for the period January 1, 2003 through September 30, 2004
County of Russell Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004
County of Sussex Clerk of the Circuit Court for the period October 1, 2003 through December 31, 2004
County of Powhatan Clerk of the Circuit Court for the period October 1, 2003 through
December 1, 2004*

County of Pulaski Clerk of the Circuit Court for the period July 1, 2003 through December 31, 2004*

County of Tazewell Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004

General Receivers

County of Sussex General Receiver of the Circuit Court as of June 30, 2004, and the related statement of cash receipts and disbursements for the period July 1, 2003 through June 30, 2004

County of Warren General District Court for the period January 1, 2003 through September 30, 2004

